

R. M. Thompson

H. R.

REPORT

OF THE COMMITTEE ON THE

STATE BANK.

DEC. 30, 1835.

Read, and 200 copies ordered to be printed.

Mr. Thompson of Lawrence, made the following Report:

The Committee on the State Bank, to whom have been referred the Reports of the several Branches, together with sundry other documents in relation thereto, have had the same, and all other matters submitted to them, under consideration, and have directed me to report:

The reports from the several Branches of the State Bank, and the other documents referred to the Committee, have been attentively examined, in order to ascertain the operations of the Bank since its original institution, and it gives the Committee much satisfaction to report that it exists in a more safe and prosperous condition, than could have been anticipated by its friends. These reports, and an examination of the books of the Parent Board, together with the efficient assistance of the officers, have given the Committee the most satisfactory knowledge of the condition of each Branch; and the Committee is enabled to afford to the House, the assurance that so far at least, public confidence has not been misplaced.

The business of the past year has gradually increased with the prosperous activity and growth of our State, and the Banks have been enabled to sustain a much larger circulation than was expected.

Since the Report of the President of the State Bank to the last General Assembly, the amount of circulation is as follows:

February 1, 1835,	-	-	-	-	-	-	\$656,545
March	"	-	-	-	-	-	753,415
April	"	-	-	-	-	-	831,705
May	"	-	-	-	-	-	997,475
June	"	-	-	-	-	-	1,131,240
July	"	-	-	-	-	-	1,186,795
August	"	-	-	-	-	-	1,311,320
September	"	-	-	-	-	-	1,343,555
October	"	-	-	-	-	-	1,422,835
November	"	-	-	-	-	-	1,616,290

This progressive increase of circulation has given capitalists abroad, the most entire confidence in the institution,—and its paper is now sought for with as much anxiety in the neighboring States, and in the eastern and southern cities, as the paper of any other western State Bank. It may be considered as an evidence of the favorable manner in which it is regarded by those, who have directly participated in the use of its capital. Pressures in the money market, which were of common occurrence when we were dependent upon other States, for a circulating medium, have been removed, and the characteristic enterprise of our citizens has received an additional stimulus from the facilities to our commercial intercourse, afforded by the Bank. So great, indeed, has been the demand for money, that, at several periods during the past year, many of the Branches were unable to accommodate their customers. This has driven the paper to a distance from the Banks, and has thrown much foreign paper on deposit among the Branches, and at the same time confined the issues of paper to their aggregate credits or liabilities; no single Branch having gone beyond its debts or means, as restricted by the charter.

Although the Bank has not been sufficiently long in existence, to develop the precise character of its debts, yet the combined operation of the many causes which have tended to give a character to its business, justify the belief that loans have been made, consistently with the interest and safety of the institution and the public. As the most of the loans, however, (as they ever must be to secure successful banking operations,) have been for the purpose of affording facilities for the exchange of the various commodities of the country, and have been consequently thrown into the hands of men whose interest it is to sustain the institution, there is nothing to apprehend from that source. The very facilities which are afforded by the Bank, make the means of ultimate payment more secure and afford the most abundant promise of punctuality.

It is not in the nature of commercial transactions that any system of credit should be placed entirely beyond the reach of hazard, yet the constantly increasing wealth of our State, would be embarrassed without the use of banks and a currency of paper. It is not diffi-

cult to perceive how intimately connected, are the operations of trade and industry, and the consequent development of the natural resources of a country, and the business transactions of a bank. So interwoven is this connexion, that business of every kind, becomes active and prosperous where banks are so, and depressed where they are the opposite.

After this general view of the matter referred them, the Committee will lay before the House, the several propositions which have been made to them, in behalf of the State Bank and Branches, for amendments to the present charter:

First. It is asked, to vest power in the *Parent Board*, to increase the capital of the Branches to \$250,000. It will be perceived that, by the charter, each Branch can apply, separately, to the Legislature for an increase of capital by individual subscription; yet the Committee conceive that this power should be vested in the Parent Board, and that the increase of capital in each Branch, to the sum of 250,000 dollars, should depend upon the exercise of the sound discretion of that Board. The Committee are justified in this conclusion from several considerations; 1st. the discretion already reposed in that Board, by the charter, has been exercised in a manner highly satisfactory to the public, and entirely calculated to remove those doubts, which, at the commencement of our banking operations, clouded the prospects of the institution. 2d, because the State Board can more correctly than the Legislature, judge what Branches ought to have an increase of capital and when, and to what extent that increase should be granted. 3d, because, in a very short time, many of the Branches must be increased to a much larger capital than at present, in order to supply both agricultural and commercial necessities, while other Branches will not, in all probability, demand so large an increase.

Second. It is asked, (and this is the most important amendment submitted to the consideration of the Committee,) that power be vested in the *Parent Board*, to permit the Branches to discount to an average of *two and a half* times the capital paid in, *retaining the issue of paper*, as at present, two for one. The Committee think that this privilege can be safely granted, as the charter reposes in the Parent Board the power to restrict discounts as low as *one and a quarter* the capital paid in whenever it may be deemed necessary. This power will, of course, be retained, and the excess, of issues over the *two*, as provided in the charter, will, consequently, be upon deposits. The Branches can with ease, have debts due them, to twice the amount of capital paid in, without one dollar of deposits, either public or private; leaving deposits, both public and private, in the vaults of the Branches, as dead useless capital, either to the Branches, the public, or the depositors;—and also leaving the surplus fund, which now amounts to \$36,000, but will in a year or two be increased to \$100,000, in the same condition.

In all banks, not restricted as the Banks of Indiana are by the present charter, the average deposits are considered as much capital, upon which to predicate the *issue of paper*, as that paid in by stock-

holders on their stock. Other State banks, of small capital, have no restriction whatever as to debts due to or from them. They are independent and controled by no power but their own discretion and public opinion—the first acting for the public good, and the latter the surest guarantee against oppression. The Legislature of Illinois at its last session, chartered a bank with branches, all of which commenced operations during the past summer. Her charter is a liberal one, her issues of paper can go to *two and one half the capital paid in*, and debts due to her can go to three for one; and her stock has been quoted at six per cent. advance, in the eastern cities. The Committee conceive that there is possessed, in Indiana, as much financial knowledge and as much honesty of purpose, as citizens of other States, but, for the permanent and undoubted safety of our banking operations, they would not be willing to extend to the Banks of our State the almost unqualified privileges of the Illinois charter. This, however, is not solicited by the State Bank or Branches, and should it even be granted, it is not likely that the Branches would assent to it—each being, by the charter, mutually accountable for the other. It is only asked to so amend the charter, as to enable our Banks to operate in a usual business manner and on a usual business scale, retaining every restriction which an entire regard to the safety and character of the institution may require. It is asked to permit the Branches to loan deposits,—that power to be restricted to *one half* the amount of capital paid in, and this, only by permission of the Parent Board.

The Committee conceive that this privilege should be granted. That the required permission will not be given, except under such restrictions as will make it entirely safe, the Committee think they are authorised in concluding, by the course of conduct which has been pursued by the State Board from the establishment of our Bank. The Committee are of opinion that this privilege will be nothing more than engrafting, to a very limited extent, the principles of *saving institutions*—so justly popular wherever they exist; and feel assured that it will not of course, be extended to the Branches, except to operate on the lowest average deposits, including the surplus fund. If, in the current course of business, a Branch may not have an average of deposits high enough to justify her in extending to the *one half*, there is no doubt but she will pay a small interest, say three or four per cent. This is now authorized by the 21st sec. of the charter, which will, at all times, insure a sufficiency.

The banks in Louisville, Cincinnati, Baltimore, Philadelphia, and New York, pay an interest of four per cent. on deposits. The Indiana Canal Fund is now deposited in the Merchants' Bank of New York, at an interest of four per cent. per annum, by which arrangement the use of this amount is lost to the citizens of this State, and used to the advantage of the citizens of New York and the stockholders of that Bank. Were the Branches of our Bank permitted to use this fund, they could readily afford to pay the four per cent., thereby making a clear profit of two per cent. and afford the citizens of Indiana greater banking facilities, as well as the Commissioners of that Fund more

extensive opportunities of transmission. There are, besides, many instances of our own citizens leaving money on deposit in Cincinnati and Louisville, at an interest of four per cent. per annum;—preferring their money to lie at a small interest, in the vaults of a safe and secure banking institution, from whence they can at any time draw it, rather than loaning it out at a higher interest, where a certainty of being enabled to realize it, when wanted, could not exist.

The amount of individual deposits, in the several Branches, has gradually increased, from a very small sum, to \$470,000,—that being the amount as reported to the State Board on the 12th December, 1835. The increase has been in a rapid but very regular ratio, and there is every reason to believe, that it will so continue. The Committee are uninformed of any profitable results, either to the Banks or to the depositors, which can possibly result from so large an amount of capital lying idle in the vaults of a Bank.

The following are the amounts of individual deposits in the several Branches, since the report of the President, to the last General Assembly:

February 1, 1835,	-	-	-	-	\$185,163
March, “	-	-	-	-	186,191
April, “	-	-	-	-	183,786
May, “	-	-	-	-	191,105
June, “	-	-	-	-	210,814
July, “	-	-	-	-	306,673
August, “	-	-	-	-	322,378
September, “	-	-	-	-	312,673
October, “	-	-	-	-	323,407
November, “	-	-	-	-	422,433
December 12,	-	-	-	-	470,000

The profits of a Bank arise principally from interest received on loans, and are consequently restricted where a Bank is prevented from using deposits. When a deposit is made, the party making it either receives it in the notes of that or some other Bank, or is credited with the amount,—consequently he has always a surety of its safety and his right to withdraw the whole amount at any time. The notes of the Bank and the credits, therefore, arise equally from deposits, and since the Bank is, in all cases, liable for each, the *aggregate* amount should constitute the circulating medium. The officers of all Banks are taught by experience, what portion of these deposits may be safely loaned, or how far they may extend their discounts beyond the capital paid in, as well as what amount of specie should be retained in their vaults. Though liable to be withdrawn at any time, experience has settled the fact, that “money so much oftener changes proprietors than place,” and that whatever amount is subtracted from the vaults of a Bank is so speedily replaced, as safely to regard deposits as an *effective fund*, which, concurring with the stock of the Bank, enables it to extend its loans, and to answer all demands against it, whether occurring from the amount of discounts or drafts upon its vaults.

The public deposits in the Branches, at this time, amount to about \$1,000,000. This fund remains in the vaults of the Branches, under a pledge of security, useless and without value to the Branches or the citizens of Indiana; whereas, in other States, the deposite Banks operately *largely* thereon,—affording additional facilities to their citizens and profit to themselves. It is true, but a small portion of this fund ought to be used, but at present, no part of it can.

It is highly probable the present Congress will pass some law, in relation to the public deposits, by which the deposite Banks will be compelled to pay a small interest thereon, after the same may amount to a given sum. If so, the Branches must at once reject them (unless, as the Committee conceive, the privilege asked for is given.) They will then be sent to Cincinnati and Louisville, where the deposite Banks, under their charters, can afford to pay the interest required, and where the fund will be loaned at a profit to the Banks and the public contiguous to them, and within their banking influence. Why should not our *own* Banks and our *own* citizens derive those advantages? The Committee can conceive of no good reason, especially as the money arises from the sale of lands within the territorial borders of our *own* State.

If the Branches should be compelled to reject the deposits, the Committee think they are authorised in anticipating another evil. The deposite banks of Cincinnati and Louisville will *not* receive the paper of the Indiana Banks, through the Receivers of Public Moneys, unless the Branches negotiate arrangements with them to *redeem* their notes, *monthly*, at their counters;—thereby making our Branches tributary to those Banks, and operating as a powerful drain upon the circulating medium of the State.

It has, in the conception of the Committee, been truly said, that our charter was made, rather for the security of the bill holder than the benefit of the stockholder. If something in the character of the amendments asked for, should not be granted, the Committee think that the stock must prove unprofitable to its holders, (which includes the State,) and they perceive reasons to fear that the individual stock may fall into the hands of men who may abuse the very few powers already given. Surely it is not impolitic to leave something to the discretion of the Parent Board and the Directors of the Branches. They are selected from the most prudent, responsible and intelligent class, and are sworn to do their duty. If any loss occur, it comes out of the individual stockholders, and in certain cases, the Directors of the Branches are made individually responsible for their acts. The Branches report their condition to the Parent Board, every two weeks, and by the *fortieth* and *forty fourth* sections of the charter, full power is vested in the State Board, to suspend *instantly* any Branch, or to finally stop them and close up their concerns. This Board is composed of men of experience and character, who will, undoubtedly, exercise the powers vested in them, whenever the measures of a Branch may point towards improper conduct, whereby her credit or that of others may be endangered.

It is believed that Indiana affords as fine a field for banking operations on a limited scale, as any other State in the Union. Our citizens are, comparatively, out of debt. Our resources are extensive, and rapidly increasing. There is every prospect of a large accession of capital, through the projects of the system of Internal Improvement, now contemplated. Our Banks are connected by ties of mutual interest and responsibility, and are interested in supporting the credit and character of each other. In this commendable feature, our Banks are peculiar. Such is not the case in other States, where Banks are independent—have no community of interest, and are regardless of the credit of each other.

Banks with large capitals are sometimes restricted—often not. They are located in cities, where they can make but little or nothing, in the circulation of their notes;—their profits arising, almost exclusively from foreign and domestic bills of exchange,—dealing in bullion and foreign coin—loaning their capital and deposits.

Our banking capital is very small, in comparison with that of other States. When our whole capital is paid in, it will be but \$600,000 more than the smallest bank in the city of Cincinnati, (being now about equal,) while the whole banking capital of Ohio, is, at this time, about \$12,000,000, and that of Kentucky about the same. In this State, our Banks can easily keep out the whole of the paper they are authorised to issue, that not amounting to more than *one-half* the circulating capital of the State;—as is partially evidenced from the fact that four-fifths (there being \$571,033) of the paper in possession of the Branches, is the issue of foreign Banks. These difficulties would be removed, and the circulating medium of the State, would be the issues of our own Banks, was our capital extended to *four or five* millions of dollars.

It is asked to permit the Branches to extend their issues to an average of *two and a half*. There are many reasons in the conception of the Committee, why this should be granted. In the fall and winter months much larger sums of money are wanted than at any other season of the year, (such, at least, has as yet been the case,) particularly for operations in pork. These sums are usually raised by Bills of Exchange on New Orleans, New York, and Baltimore, which bills fall due and are paid in the spring and beginning of summer,—thereby reducing, suddenly and greatly, the discounts. At this season of the year the demand for money is limited. Therefore, if permission was given to go, during the fall and winter months, beyond the *two and a half*, as much as, during the spring and the beginning of the summer months, they go back, so as to make the *annual average* two and a half and no more, the privilege would be greatly to the advantage, both of the Branches and the public. Whereas, if they are kept to the rigid *two or two and a half*, they will be compelled to keep their discounts up, at all times, to their limit, in order to clear six per cent. after the payment of expenses. It is found much to the advantage of the community to run down the amount of discounts, at some seasons of the year, so that, at other seasons, the same may be increased. But, at present, the Branches must, for the reasons above stated, keep up, at

all times, to their limit. The propriety of this power, the Committee, therefore think, must be perceptible.

It is asked to make the extension prayed for, *exclusive of cash balances and deposits in other banks and branches*;—that is, when one Branch has cash deposited in another Bank, it shall not be considered a debt due, in contemplation of the charter. This, the Committee think, is already so. Among all financial business men, deposits in Banks are considered not as debts due them, but as cash. Without this, the Banks could not exist,—but to silence *cavil* and *misinterpretation* the Committee perceive its entire plausibility.

Under these views of the important considerations presented to the Committee, they have instructed me to report a bill amendatory of an act entitled “an act establishing a State Bank,” approved January 28th, 1834, in accordance with the propositions submitted to the Committee, which, at the last session of the Parent Board, were unanimously recommended to the favorable consideration of the Legislature.